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## Local Government Committee

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### HB 2120

**Brief Description:** Establishing urban impact districts.

**Sponsors:** Representatives McIntire and Ericks.

#### Brief Summary of Bill

- Authorizes the creation of urban impact districts to address the needs of unincorporated areas that are characterized by urban growth and demand for urban governmental services, to facilitate the annexation of these areas, and to provide resources to support the provision of such services.
- Provides urban impact districts with the powers of quasi-municipal corporations, including the power to levy and collect an excise tax on the privilege of providing utility services to customers within the district.

**Hearing Date:** 3/1/05

**Staff:** CeCe Clynch (786-7168).

#### Background:

Twenty nine of Washington's 39 counties and the cities within those counties must satisfy the full requirements under the Growth Management Act (GMA). GMA jurisdictions must designate urban growth areas (UGAs) within which urban growth must be encouraged and outside of which growth can occur only if it is not urban in nature. No city or town located in a county in which UGAs have been designated may annex territory beyond a UGA.

More than 10 years after the designation of UGAs, much of the designated unincorporated UGA has not yet been annexed. Although there are still annexations occurring, annexations and incorporations have decreased in number and area over the past few years. One of the obstacles to annexation is that annexing cities expect a net increase in costs to upgrade infrastructure and provide ongoing services. Meanwhile, counties across Washington face difficult budget challenges in providing urban services to unincorporated areas within UGAs.

The Department of Community, Trade, and Economic Development was charged by the Legislature in a 2004 budget proviso to conduct a study of the barriers to annexation in the six buildable lands counties - King, Pierce, Snohomish, Kitsap, Thurston, and Clark - and come up with recommendations for potential solutions. Among the solutions discussed in the 2004 report to the Legislature is creating more local tools for funding annexations, including "authorizing

counties to impose a utility tax in unincorporated UGAs, revenues from which would be largely dedicated to supporting city-borne annexation transition costs."

### **Summary of Bill:**

A new chapter governing urban impact districts is created in Title 36. The legislative authority of any county that is required to plan under the GMA is authorized to establish one or more urban impact districts within the county for the purpose of :

- providing incentives and financial support to cities to promote annexation;
- providing incentives and financial support to new cities that may be incorporated within these areas; and
- providing resources to support the provision by the county of urban governmental services to areas that remain outside of incorporated cities.

The boundaries of an urban impact district are to be determined by the county legislative authority. An urban impact district includes all unincorporated territory within its boundaries that is designated as an UGA. It may not include any area within the corporate limits of a city or town. The county legislative authority is the governing board of such a district. The electors of an urban impact district include all registered voters within the district.

There must be a public hearing prior to establishment of an urban impact district and notice of the hearing must be published at least once not less than 15 days prior to the hearing. This notice is in addition to any other notice required by law to be published. Establishment of an urban impact district requires a finding by the county legislative authority that it is in the public interest to form the district. Creation of an urban impact district is not subject to review by the boundary review board, nor is it subject to local initiative or referendum.

Dissolution of an urban impact district occurs automatically upon annexation of all of the territory included within the district into one or more cities and the adoption of a resolution declaring that the district has wound up its affairs. An urban impact district may also be dissolved by its governing board following public hearing and adoption of a resolution declaring that the district has wound up its affairs.

Urban impact districts are quasi-municipal corporations with independent taxing authority. An urban impact district does not have the power of eminent domain. While it may, by interlocal agreement, make payments to a county for the support of urban governmental services and make annexation incentive payments to a city or cities to offset costs associated with annexation and costs related to extending municipal services and infrastructure, an urban impact district may not provide local governmental services except indirectly.

By resolution of the governing board, the district may levy and collect an excise tax on the privilege of engaging in any business that provides a utility service to customers within the district. "Utility service" means:

- a light and power business or a natural gas distribution business;
- a telephone business;
- a cable television service;
- sewer or water service;
- drainage service;
- solid waste service;

- steam service; and
- any other business or service traditionally taxed as a utility.

The tax is not to exceed a maximum rate of five percent except with the approval of a majority of the electors residing in the district. Voter approval is not otherwise required.

Money received by an urban impact district is to be used as follows:

- *For the first two years* following the collection of a utility tax, special funds or accounts are to be created for the support of specific annexation priority neighborhoods and one or more urban service areas. The governing board determines the allocation of these funds after considering factors such as number of residents in the corresponding area, the amount of utility receipts from within that area, the cost of providing local governmental services in that area, and other reasonable factors. With respect to specific annexation priority neighborhoods, the money is to be used to provide incentive payments to cities to encourage annexation. Such incentive payments may be authorized only in relation to annexations with effective dates earlier than thirty months from the date the utility tax is first collected. Unused funds from an annexation priority neighborhood fund may be transferred to an urban services area fund which may be used to provide incentive payments to cities or support urban governmental services.
- *After the first two years*, the governing board may cease allocating revenues into separately designated funds or accounts and the utility tax revenues may be used for any proper district purpose.

**Appropriation:** None.

**Fiscal Note:** Requested on February 25, 2005.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.